Annual Report 1980

File

United Siscoe Mines Inc.

The Company

United Siscoe Mines Inc. is a natural resource development and investment company concentrating on developing geothermal energy in the United States. Through its subsidiary, Geothermal Kinetics Inc., the company has major interests in the Geysers and Imperial Valley areas of California, and other areas of the western United States.

United Siscoe holds a 26¼% interest in a producing gold mine in the United States. Other interests include natural gas production in Alberta and real estate holdings in Ontario.

United Siscoe participates in mineral exploration projects in the search for potash-silver-lead-zinc and uranium.

A substantial investment is held in Camflo Mines Limited, a leading Canadian gold producer with growing interests in natural gas in Canada, and in natural gas and coal mining in the United States.

Geothermal Test Unit, Mercer 2-28

Contents

United Siscoe Mines Inc.
and subsidiary companies

Board of Directors

E. G. Arcaro, Miami, Florida
Public Relations Consultant

H. Dahl-Jensen, Unionville, Ontario
Realtor

P. W. Eggers, Dallas, Texas
Senior Partner, Eggers & Greene, Attorneys at Law

†*R. E. Fasken, Mississauga, Ontario
Mining Executive, Chairman, Camflo Mines Limited

†*Maxwell Goldhar, Toronto, Ontario
President, Revenue Properties Company Limited

†K. G. R. Gwynne-Timothy, Q.C., Toronto, Ontario
Barrister and Solicitor, Holden, Murdoch & Finlay

H. S. Hershoran, Toronto, Ontario
President, Hillcrest General Leasing Limited

*R. M. Smith, Oakville, Ontario
Mining Engineer, President, Camflo Mines Limited

*Member of the Executive Committee
†Member of the Audit Committee

G. T. Smith, Toronto, Ontario
(Resigned April 7, 1981)

Officers (as at April 30, 1981)

R. E. Fasken — *President & Chief Executive Officer*

R. M. Smith — *Executive Vice-President*

B. K. Meikle — *Vice-President Operations*

M. E. Holt — *Vice-President Exploration*

C. B. Burton — *Vice-President Finance*

K. E. Elrick — *Treasurer*

W. R. Robertson — *Secretary*

R. D. Sherman — *Assistant Treasurer and Comptroller*

Subsidiary and Associated Companies

Siscoe Metals of Ontario Limited

Siscoe Metals Inc.

Geothermal Kinetics Inc.

Chesbar Resources Inc.

Camflo Mines Limited

Normandy Chibougamau Mines Limited

Transfer Agent and Registrar

Canada Permanent Trust Company
Montreal and Toronto,
Bradford Trust Company, New York

Auditors

Peat, Marwick, Mitchell & Co.
Toronto, Ontario

Head Office

1 Place Ville-Marie, Suite 750
Montreal, Quebec H3B 1Z6

Executive Office

Suite 3001, P.O. Box 45, South Tower
Royal Bank Plaza, Toronto, Ontario M5J 2J1

Solicitors

Holden, Murdoch & Finlay
Toronto, Ontario

Share Listing

The Toronto Stock Exchange/Montreal Stock Exchange
Symbol USO

Bankers

The Canadian Imperial Bank of Commerce, Toronto, Ontario
The Royal Bank of Canada, Toronto, Ontario

Annual Meeting of Shareholders

June 4, 1981, 11:00 a.m.
Mt-Royal Room, Hotel Bonaventure
Montreal, Quebec

DIRECTORS' REPORT TO THE SHAREHOLDERS

In 1980 United Siscoe Mines Inc. continued its major involvement in geothermal energy development and completed the preproduction development of the Pinson Gold Project.

The Company's principal asset is its 84% interest in Geothermal Kinetics Inc., whose primary business is to explore for and develop geothermal steam resources. A drilling and development program continues to be conducted on a number of properties held by the Company in the Geysers and Imperial Valley areas of California.

The Pinson Gold Mine located in northern Nevada commenced operation in February 1981. The Company holds a 26.25% interest in this property which is expected to significantly increase the Company's cash flow.

Your Company has initiated a proposed reorganization which, if accepted by the minority shareholders of G.K.I., will make that company a wholly-owned subsidiary of United Siscoe. Under the proposal, United Siscoe is offering to exchange its shares for shares of G.K.I. held by certain of the

Pinson Gold Mine

larger G.K.I. shareholders at the rate of one United Siscoe share for each two G.K.I. shares. Concurrently with the commencement of the exchange offer G.K.I. has given to its shareholders notice of a special meeting of shareholders to be held on June 16, 1981 to consider and vote on a merger between G.K.I. and a newly organized subsidiary of United Siscoe under which each G.K.I. shareholder immediately before the merger becomes effective, other than Siscoe, will receive from G.K.I. (U.S.) $9.15 in cash for each G.K.I. share held. It is a condition to the effectiveness of the merger that it be approved at the special meeting by the vote of a majority of the shares voted by G.K.I. shareholders who will receive cash as a result of the merger. If the merger is completed, G.K.I. will be a wholly-owned subsidiary of United Siscoe.

The Company continued its active mineral exploration programs in Canada, the United States and Spain.

Earnings on a consolidated basis for the year were $7,009,000 or $1.22 per share after extraordinary items of $7,328,000 compared with net income of $239,000 or $.05 per share in 1979. An extraordinary gain of $7,295,000 after taxes was recognized in 1980 on the exchange of a 26½% interest in the Franciscan geothermal property for 1.9 million shares (approximately 7½%) of M.C.O. Resources, Inc., a publicly traded U.S. Corporation.

Revenue from oil and gas activities increased to $774,000 from $337,000 as a result of increased prices and additional production from wells drilled in previous years which were brought into production and initial revenue from a 1980 drilling program undertaken in the United States by the Company's 70% owned subsidiary Chesbar Resources Inc.

United Siscoe's share of earnings of Camflo Mines Limited (in which United Siscoe held a 16.4% interest in 1980) was $1,909,000 compared with $1,765,000 in 1979. Camflo achieved significantly higher revenue primarily as a result of higher prices for gold despite lower grades treated. Camflo has increased its holding in the Company during the year to 45%.

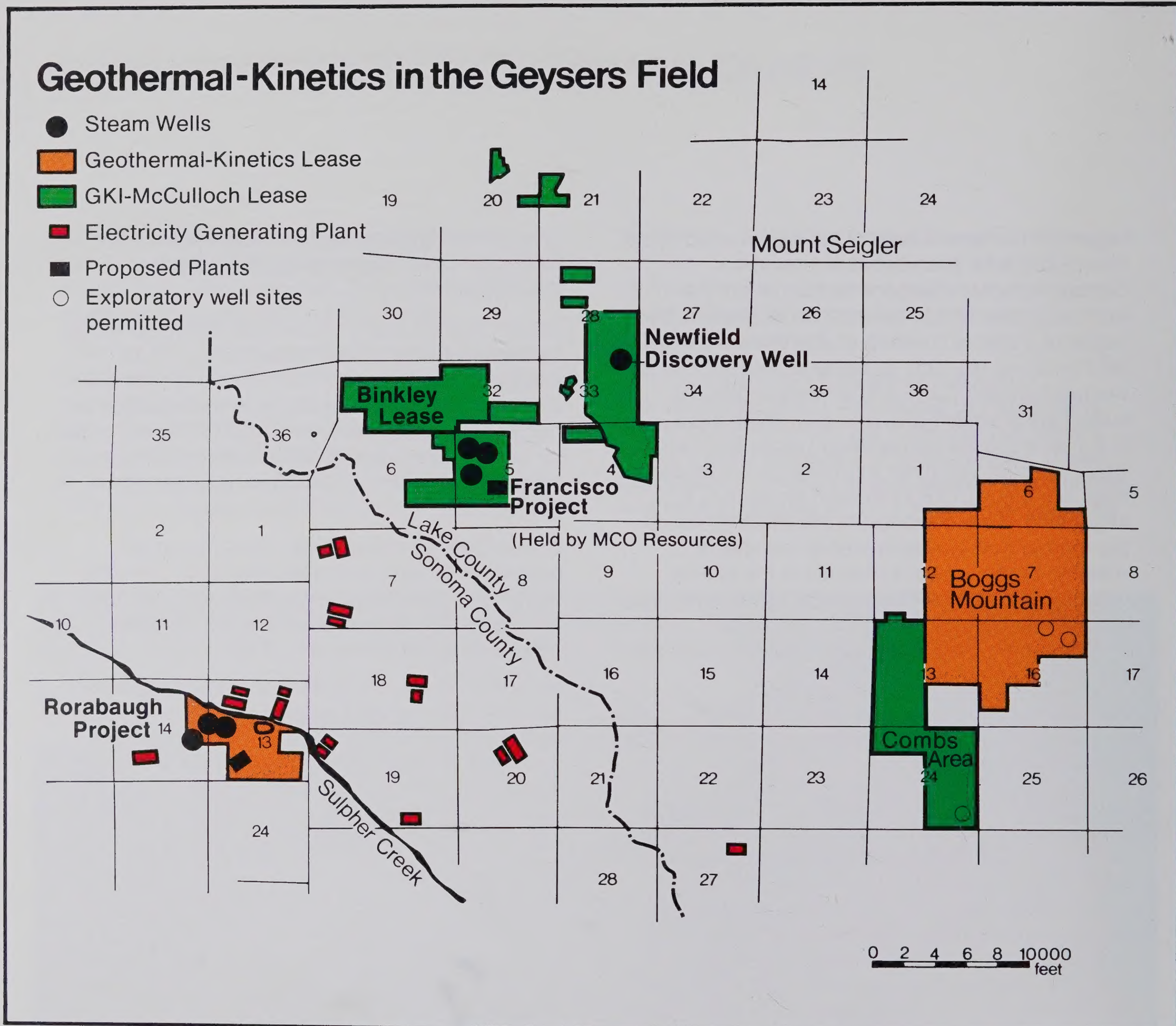
United Siscoe's consolidated working capital position improved during the year by $7,743,000. Working capital deficiency at December 31, 1980 was $619,000 compared with an $8,362,000 deficiency at December 31, 1979.

At December 31, 1980 the Company's investment portfolio had a market value of approximately $56 million, substantially all of which represented the Company's investments in Camflo and M.C.O. Resources, Inc.

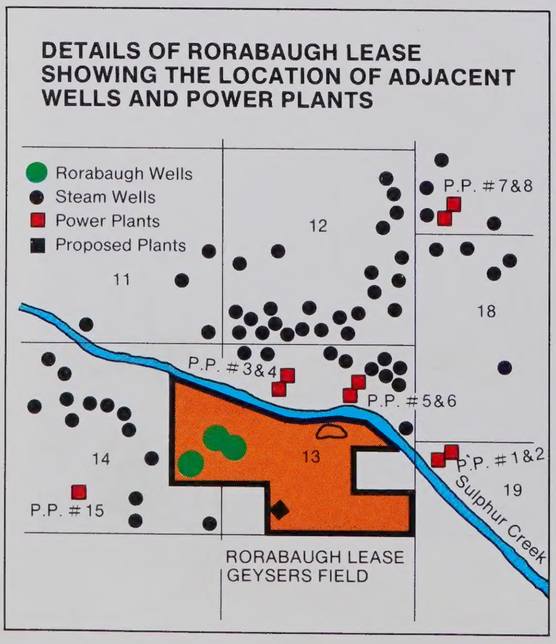
On Behalf of the Board,

R. E. Fasken
President

April 30, 1981



Geothermal-Kinetics in the Geysers Field



DETAILS OF RORABAUGH LEASE SHOWING THE LOCATION OF ADJACENT WELLS AND POWER PLANTS

MAIN GEOTHERMAL PROSPECTS IN WESTERN U.S.A.

Review of Interests

GEOTHERMAL ENERGY

The following summarizes the current status of the major geothermal energy projects under development by the Company's subsidiary, Geothermal Kinetics Inc.

Geysers Area, California

Rorabaugh property — 100% Working Interest in 408 acres, Sonoma County, California.

Finalization of design and construction plans has commenced under the supervision of the California Department of Water Resources which will own and operate the 55,000 KW generating plant.

Three commercial wells have been drilled on this property and the fourth well is scheduled for completion later this year. G.K.I.'s agreement with D.W.R. calls for all of G.K.I.'s wells (approximately 11) to be completed not later than six months prior to scheduled plant completion. G.K.I expects no delays in meeting this commitment and should have all financial arrangements in place later this year.

Boggs Mountain Property — 100% working interest in 1,785 acres, Lake County, California.

All necessary clearances including drilling permits have been obtained. Construction of an access road and a drill pad is now underway. Drilling will commence as soon as a rig becomes available, probably within the next few months.

Combs prospect — 763 acres, Lake County, California.

This property lies immediately to the south and east of the Boggs Mountain property and is a joint venture between G.K.I. and MCR Geothermal Corporation with some of the original land owners holding minor carried interests in the property.

The initial well has been drilled to 11,000′ and at the present time technical tests are being conducted to determine whether the well should be abandoned or further drilling undertaken.

Binkley Property — 471 acres, Lake County, California.

The formal agreement covering the terms for development of this prospect has been delayed, however it is expected that the negotiations will be finalized with the California Department of Water Resources in the near future. It is anticipated that G.K.I. will have a 37.5% working interest and would commence contributing its pro-rata share of future costs after $1,300,000 has been contributed by D.W.R. towards the cost of drilling the initial test well. Drilling permits should be forthcoming later in the year.

Imperial Valley, California

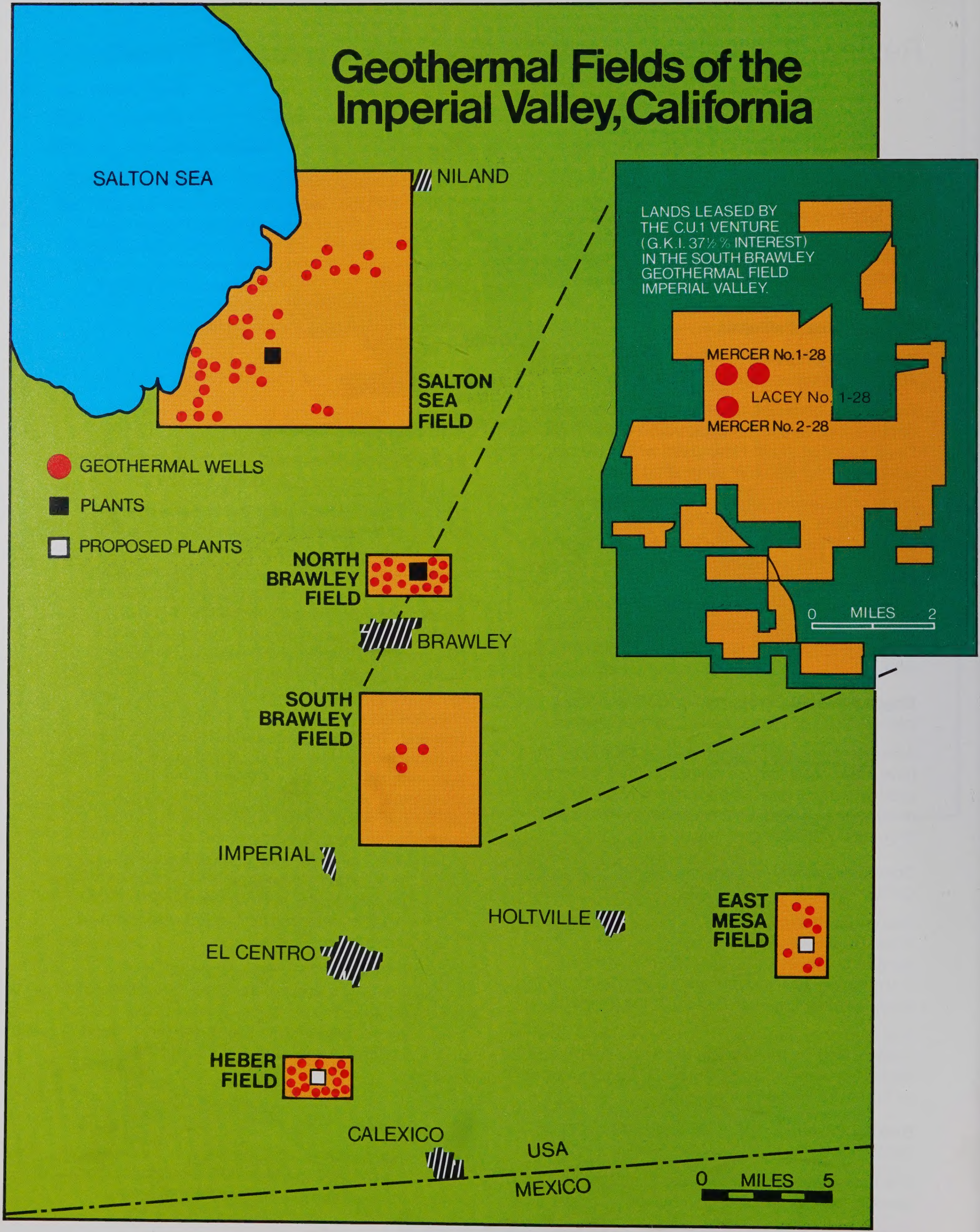
South Brawley Property — 37½% working interest in 11,400 acres Imperial Valley, California.

With funds provided under the Department of Energy $49 million Loan Guarantee the Mercer 2-28 which was originally completed as a re-injection well for Mercer 1-28, was deepened and cased as a production well. Mercer 2-28 was given a short flow test after completion. The recorded wellhead pressures, temperatures and flow rates indicated that the well was producing from an extremely productive reservoir. The special test equipment furnished by Vetter Research was constructed at the well-site to conduct a 30-day flow test. This test was conducted to satisfy the requirements of the Loan Guarantee. Based on the data collected, and the performance of the production well, it appears that these requirements will be successfully met. The well test report will be submitted to the U.S. Department of Energy (DOE) in mid 1981. It is expected that the DOE will authorize a further disbursement of funds so three additional production wells can be drilled in the third quarter to delineate further the reservoir and characterize the resource.

Lacey 2-28 was drilled and completed as a re-injection well to accept the brine flow during the testing of Mercer 2-28. Lacey 2-28 is cased so that it too may be deepened in the future and converted into a production well if deemed appropriate.

Group Seven

Located in Golden, Colorado, this wholly-owned subsidiary of G.K.I. is the geophysical exploration arm of the company in the geothermal area.


Geothermal Fields of the Imperial Valley, California
SALTON SEA
NILAND
SALTON SEA FIELD
GEOTHERMAL WELLS
PLANTS
PROPOSED PLANTS
NORTH BRAWLEY FIELD
BRAWLEY
SOUTH BRAWLEY FIELD
IMPERIAL
HOLTVILLE
EL CENTRO
EAST MESA FIELD
HEBER FIELD
CALEXICO
USA
MEXICO
0 MILES 5
LANDS LEASED BY THE C.U.1 VENTURE (G.K.I. 37½ % INTEREST) IN THE SOUTH BRAWLEY GEOTHERMAL FIELD IMPERIAL VALLEY.
MERCER No.1-28
LACEY No. 1-28
MERCER No. 2-28
0 MILES 2

Extensive work was carried out during the year in California, New Mexico and Nevada where the company holds interests in a number of large areas favourable for the development of geothermal resources. A concentrated exploration program was carried out in the Dixie Valley geothermal area of Nevada resulting in the Company acquiring a large tract of potential geothermal acreage. Further work is planned for this prospect during the year to define and delineate potential drill targets.

Gasahol Production

After exhaustive planning and review with various consultants in this field, it was decided not to proceed with the proposed development of a 20 million gallon per year gasahol plant in southern California. Economic conditions including government incentives did not appear sufficiently attractive to justify the necessary investment.

GOLD

Pinson Mining Company

The 1,000 ton per day open pit Pinson gold mine was placed into production in February, 1981. United Siscoe has a 26.25% interest in this project which is located near Winnemucca, Nevada.

The total project cost to the start of production amounted to U.S. $18,800,000. Financing was provided by a bank project loan of $15,750,000 and $3,050,000 of equity contributions by the Pinson Joint Venture members. If the price of gold averages U.S. $500 per ounce, the bank loan should be retired in eighteen months and this will include financing the initiation of heap leaching.

The start up of the operation proceeded much more smoothly than anticipated and was on schedule and very close to the initial budgets. This is a tribute to an excellent management team which has been assembled.

Ore reserves total 3,250,000 tons grading 0.12 ounces of gold per ton in the main pit. Grade of the mill feed for the first few years will probably average about 0.15 ounces of gold per ton. In addition, there are approximately 5.5 million tons of ore grading 0.025 ounces of gold per ton which can be heap leached and much of this will be mined as part of the main pit. Eight miles away, Pinson's wholly-owned Preble deposit contains 1,340,000 tons grading 0.08 ounces of gold per ton and the prospects of finding additional reserves in the area are very good.

Camflo Mines Limited

United Siscoe has further indirect interests in gold production and exploration through its investment in Camflo Mines Limited.

GAS AND OIL

United Siscoe's gas and oil interests accounted for revenue of $774,000 compared with $377,000 in 1979. Proven reserves at December 31, 1980, substantially all of which are developed and located in Canada, are estimated to be 6,300 million cubic feet of gas and 13,500 barrels of oil.

In 1980, a subsidiary in which the company holds a 70.3% interest, entered into a joint venture for the development of oil and gas properties in West Virginia and Ohio. Sufficient data with respect to the impact of the activity of the venture on the Company's proven gas and oil reserves are not presently available.

In addition Camflo Mines Limited has significant gas and oil interests.

CAMFLO MINES LIMITED

United Siscoe holds a 16% interest in Camflo Mines Limited, a diversified natural resource company with interests in gold, gas and oil and coal production.

In 1980, earnings of Camflo Mines were $11.2 million equal to $3.10 per share compared with $9.5 million or $2.82 per share in 1979. Most of the earnings were generated from the Malartic township gold mine which produced over 50,000 ounces of gold. Camflo received an average of $738 (Cdn)

per ounce in 1980 on 50,478 ounces sold compared with $350 (Cdn) per ounce on 70,639 ounces sold in 1979. In 1980 the Corporation had a $2.8 million pre-tax gain on the disposal of certain marketable securities compared with $4.5 million from similar transactions in 1979.

In mid 1980 Camflo entered an agreement with Malartic Hygrade Gold Mines (Canada) Limited whereby ore from the adjoining Malartic property will be mined by Camflo from its underground workings. Exploration has outlined excellent ore on this property. The extent and grade of the ore zones are comparable to, and are in fact normal extensions of, the Camflo ore except for one large zone where high grade ore has been indicated. Camflo will receive 40% of net revenues from this operation.

Revenues from natural gas and oil production increased 38% during the year to $5.1 million. Camflo's gas and oil reserves are located in both Canada and the United States. Camflo's proven and probable reserves at December 31, 1980 are estimated to be gas 94.3 billion cubic feet and oil and condensate 263,000 barrels.

Camflo's subsidiary, La Luz Mines Limited again experienced disappointing results from the operation of its two open pit coal mines located in Ohio. Loss on operations continued despite significantly higher revenues.

Camflo is continuing with exploration and development on the Pandora Property, a former producer in the Cadillac area of Quebec and expects to earn a 75% interest in the near future. This property is expected to commence limited production in 1982. Further exploration is also planned for other properties in the Malartic area of Quebec.

Camflo continues to be active, directly and through associated companies, in gold exploration and development. Extensive exploration is being conducted in the Red Lake area of Northwestern Ontario where initial production is expected to be attained late in 1981. In addition, major exploration programs have been planned on properties in the Bissett and Snow Lake areas of Manitoba.

MINERAL EXPLORATION AND DEVELOPMENT

United Siscoe continued its involvement in mineral exploration programs. In addition to the principal projects outlined below, the company is involved in a number of projects in Canada and the United States which are in a formative stage.

Western Newfoundland — Potash

The property being explored is located along the southwest coast of Newfoundland and is underlain by favourable geology for potash deposits. In an earlier program marginal grades of significant thicknesses were intersected on one of seven target areas that have been outlined by detailed gravity surveys.

In January Noranda Exploration Company obtained an option to expend approximately $2,000,000 on exploration to earn a 66⅔% working interest. Siscoe and Camflo each retain a 16.7% interest in this project. Pronto Explorations Limited is entitled to receive a 25% net profit royalty after payout.

Spain — Silver, Lead, Zinc

Three programs are being conducted in Spain in which United Siscoe and Camflo each have a 21.25% interest.

In the Rosalejo area underground exploration has started and a small mill is now in operation treating development ore. An underground diamond drilling program has commenced.

Exploration is continuing on the Santa Leocadia Property where silver, lead and zinc values are being outlined.

In addition a general exploration program is being carried out on other properties in the Cordoba area.

Western Canada — Uranium

The results of the 1980 exploration program for uranium were disappointing, however, a modest program is planned for the Kasmere Lake area this year.

United Siscoe

Consolidated Financial Statements
for the year ended
December 31, 1980

Consolidated Balance Sheet

as at December 31, 1980
(stated in thousands of dollars)

Assets	1980	1979
Current assets		
Cash and term deposit	$ 654	$ 552
Accounts receivable	445	476
Amounts receivable from related parties	116	258
Marketable securities (note 2)	17,002	698
Prepaid expenses and supplies inventory	203	34
	18,420	2,018
Amounts receivable from officers and directors (note 3)	693	636
Investment in affiliated company (note 4)	1,304	3,014
Real estate investment (note 5)	4,577	4,546
Petroleum and natural gas interests (note 6)	3,208	782
Property, plant and equipment (note 7)	5,031	799
Deferred geothermal exploration and development costs (note 8)	22,692	18,419
Deferred mineral exploration and development expenditures (note 9)	3,805	2,185
Other assets	196	443
	$59,926	$32,842

See accompanying notes to consolidated financial statements.

Liabilities	1980	1979
Current liabilities		
Bank loans and overdrafts (note 10)	$13,262	$ 8,080
Accounts payable and accrued liabilities	2,080	616
Current portion of long-term liabilities (note 11)	920	1,684
Deferred income taxes (note 15)	2,777	
	19,039	10,380
Long-term liabilities (note 11)	8,287	2,592
Deferred income taxes (note 15)	2,295	
Minority interest in subsidiary companies	4,633	2,756
Commitments and contingencies (notes 5, 6, 8, 9, 12 and 18)		

Shareholders' Equity		
Share capital (note 13)		
Authorized		
7,500,000 shares without par value		
Issued and fully paid		
6,348,406 shares (1979, 6,048,406 shares)	24,740	21,440
Contributed surplus (note 14)	602	
Retained earnings (deficit)	6,784	(225)
	32,126	21,215
Deduct the company's interest in its shares held by subsidiary and affiliated companies	6,454	4,101
	25,672	17,114
	$59,926	$32,842

On behalf of the Board

Director

Director

Consolidated Statement of Income

Year Ended December 31, 1980
(stated in thousands of dollars)

	1980	1979
Revenue		
Petroleum and natural gas income	$ 774	$ 337
Net gain on sale of marketable securities	11	102
Interest and other income	198	223
	983	662
Expense		
Administration and operating expenses	1,426	1,277
Interest on long-term liabilities and amortization of debenture issue expenses, net	142	249
Other interest expense	1,523	708
Depreciation, depletion and amortization	227	92
	3,318	2,326
Loss before income taxes	(2,335)	(1,664)
Income taxes recovered (note 15)	(97)	(110)
Loss before the undernoted	(2,238)	(1,554)
Minority interest in loss of subsidiary company	10	28
Share of earnings of affiliated company	1,909	1,765
Income (loss) before extraordinary items	(319)	239
Extraordinary items		
Gain on disposal of interest in geothermal prospect, net of minority interest and net of deferred taxes of $5,072,000 (note 15)	7,295	
Realization of income tax benefits not recorded in prior years	33	
Net income for the year	$ 7,009	$ 239
Income (loss) per share		
Income (loss) before extraordinary items	$ (.06)	$ .05
Net income	$ 1.22	$ .05

Consolidated Statement of Retained Earnings (Deficit)

Year Ended December 31, 1980
(stated in thousands of dollars)

	1980	1979
Deficit at beginning of year	$ (225)	$ (464)
Net income for the year	7,009	239
Retained earnings (deficit) at end of year	$ 6,784	$ (225)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1980
(stated in thousands of dollars)

	1980	1979
Source of funds		
Disposal of interest in geothermal prospect, net of deferred income taxes	$13,377	
Issue of share capital	3,300	$ 6,663
Increase in long-term liabilities	7,930	153
Disposal of shares of the company owned by a subsidiary, Chesbar Resources Inc.	1,466	
Other	188	247
	26,261	7,063
Use of Funds		
Operations	1,068	758
Additions to		
Petroleum and natural gas interests	2,577	204
Geothermal exploration and development costs	6,325	6,298
Mineral exploration and development expenditures	1,372	1,101
Property, plant and equipment	4,691	284
Real estate investment	31	80
Retirement of long-term liabilities	2,454	851
	18,518	9,576
Increase (decrease) in working capital	7,743	(2,513)
Working capital (deficiency) at beginning of year	(8,362)	(5,849)
Working capital (deficiency) at end of year	$ (619)	$ (8,362)

See accompanying notes to consolidated financial statements.

Auditors' Report

To the Shareholders of
United Siscoe Mines Inc.

We have examined the consolidated balance sheet of United Siscoe Mines Inc. (formerly United Siscoe Mines Limited) as at December 31, 1980 and the consolidated statements of income, retained earnings (deficit) and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination of the financial statements of United Siscoe Mines Inc. and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied upon the reports of other auditors who have examined the financial statements of an associated company accounted for using the equity method and, several unincorporated joint ventures and a partnership accounted for on the proportionate basis.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 30, 1981.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1980

The company is incorporated under the Companies Act (Quebec) and is a public company listed on the Toronto and Montreal Stock Exchanges. Approximately 45 percent of the issued shares of the company are owned by Camflo Mines Limited. The principal activities of the company are exploration for and development of mineral and geothermal resources, and petroleum and natural gas interests. The company also holds real estate and other investments.

1. **Summary of Significant Accounting Policies**

(a) Basis of presentation

General

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Subsidiary companies

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries Siscoe Metals of Ontario Limited and Siscoe Metals Inc., and its partly owned subsidiaries, Geothermal Kinetics Inc. (G.K.I.) (84%) and Chesbar Resources Inc. (70%). The consolidated financial statements include the results of the subsidiary companies from the dates of acquisition. All material intercompany transactions and balances have been eliminated.

Joint ventures and partnership

The company conducts many mineral and geothermal programs and substantially all of its petroleum and natural gas activities jointly with others. These financial statements reflect only the company's proportionate interest in such activities.

Affiliated company

The company accounts for its investment in Camflo Mines Limited (1980, 16%; 1979, 19%) using the equity method under which such investment is recorded at cost plus the company's share of undistributed earnings since that date.

Intercompany shareholdings

Certain subsidiary and affiliated companies own shares in the company. The company's pro rata interest in the carrying value of such shares has been deducted from shareholders' equity and the investment in the affiliated company.

(b) Translation of foreign currency

The financial statements of the United States subsidiaries, unincorporated joint ventures and partnership have been translated as follows:

(a) Current assets and liabilities, at exchange rates prevailing at the balance sheet dates;
(b) All other assets and liabilities, at exchange rates prevailing at the date the assets were acquired or the liabilities incurred;
(c) Revenue and expenses at the average rate for the year except for depreciation, depletion and amortization which is based on the cost of assets as translated;
(d) Unrealized foreign exchange gains and losses are charged to operations.

(c) Marketable securities

Marketable securities are carried at the lower of cost and market. Gains and losses on sales of marketable securities are determined based on the average cost of the shares held.

(d) Petroleum and natural gas interests

The company follows the full cost method of accounting for petroleum and natural gas whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include acquisition costs, geological and geophysical expenses, carrying charges on non-producing property, costs of drilling both productive and unproductive wells and related production equipment. Proceeds received on disposal of properties are ordinarily credited against such costs. Depreciation and depletion are provided on the net costs using the composite unit of production method based on total estimated reserves.

(e) Property, plant and equipment

Mining

The gold leaching mill under construction at the Pinson property throughout 1980 was substantially complete as of December 31, 1980. During January 1981, the company tested the

mill and in February began limited operations. All expenditures associated with constructing the mill facility have been capitalized. Although the company was not producing gold, mining operations began in 1980 to develop the mine and to stockpile ore for processing. Depreciation of mine equipment used in such mining operations in the preproduction stage, amounting to $280,000, was computed using declining balance methods over the estimated useful lives of the assets. This depreciation has been included in deferred development costs.

Other

The Niagara Falls, Ontario property is being carried at its estimated realizable value which is the option price net of rents received to date and any proceeds on disposition of plant equipment therein.

(f) Deferred geothermal exploration and development costs

The company's geothermal operations are in the development stage and no significant production revenue has been received. The primary activity is geothermal resource exploration and development, particularly with respect to geothermal steam for sale for the generation of electricity.

In accordance with the accounting principles applicable to a development stage company, the company defers all costs associated with the geothermal operations, net of incidental revenues, as deferred geothermal exploration and development costs. Such costs include leasehold acquisition and holding costs, geological and geophysical costs, tangible and intangible drilling costs, interest costs, and administrative costs. When the company attains commercial levels of production, revenues from production will be credited to income and the deferred geothermal exploration and development costs will be amortized against production revenues. The method of amortization will be determined when production occurs and will be based on the most rational method available, considering industry technology at that time.

Proceeds received on normal disposals of geothermal properties are credited against such costs. Upon major sales of geothermal properties the cost thereof (including an allocation of a portion of the deferred interest and administrative costs and of the excess of cost of acquiring the shares of G.K.I. over book value) and accumulated amortization are removed from the accounts and any gain or loss is charged to income.

(g) Deferred mineral exploration and development expenditures

Expenditures on mineral exploration programs are deferred on a specific project basis until it can be determined if commercial production from the project is economically justifiable. When a project is discontinued, the accumulated project costs are charged to operations. At the time a project is developed the related accumulated costs, including development costs, will be amortized against any future income from that project.

(h) Income (loss) per share

Income (loss) per share is calculated on the weighted average number of shares outstanding during the respective periods after deducting intercompany shareholdings.

(i) Comparative figures

Certain of the 1979 comparative figures have been reclassifed to conform to current presentation.

2. Marketable Securities

	1980	1979
	(thousands)	
Shares of MCO Resources Inc. (quoted market value $25,479,000)	$16,214	
Other marketable securities (quoted market value $2,835,000; 1979, $2,034,000)	788	$ 698
	$17,002	$ 698

In April 1980, G.K.I. exchanged 26½% of its 30% carried interest in a geothermal prospect held by a joint venture for common stock of MCO Resources Inc., a publicly traded United States corporation. The value assigned to the shares was their fair market value at the effective date of the transaction. At March 31, 1981 the quoted market value of the company's holding of shares of MCO Resources Inc. was $24,611,000. Because of the large shareholding such value is not necessarily indicative of the amount which might be realized if the shares were to be sold.

The marketable securities above, including the shares of MCO Resources Inc., are pledged as collateral for bank loans (notes 10 and 11).

The company owns shares of several companies which are subsidiaries or affiliates of Camflo Mines Limited. As these investments are not significant, they are included in other marketable securities.

In February and March, 1981 the company sold the other marketable securities above to Camflo for cash consideration of $2,563,000 which approximated market value at the time of sale. As a result of the availability of losses carried forward for tax purposes, no income taxes will be payable on this transaction. As the company uses the equity method of accounting for its investment in Camflo, the gain on the transaction will be deferred in the company's accounts in 1981 until such time as the marketable securities are sold by Camflo.

3. Amounts Receivable from Officers and Directors

	1980	1979
	(thousands)	
Interest bearing notes (substantially at 7%), due over the period to 1983, receivable from officers and directors of the company or a subsidiary in respect of the purchase of shares of the company or the subsidiary, secured by shares of the companies, including accrued interest	$717	$806
Interest bearing mortgage (7%), due over the period to 1993, receivable from an officer of the company	50	50
	767	856
Less current portion	74	220
	$693	$636

4. Investment in Affiliated Company

	1980	1979
	(thousands)	
Camflo Mines Limited		
— shares at cost	$ 3,557	$ 3,557
— share of undistributed earnings	3,067	1,811
	6,624	5,368
— less the company's pro rata interest in those of its own shares which are owned by Camflo Mines Limited	5,320	2,354
	$ 1,304	$ 3,014

The company's equity in the underlying net assets of Camflo is approximately equal to the carrying value of the shares owned before deduction of the company's pro rata interest in those of its own shares which are owned by Camflo.

The shares of Camflo are pledged as collateral for bank loans (notes 10 and 11).

The quoted market value of the company's holdings as at December 31, 1980 was $27,699,000 (December 31, 1979 — $12,943,000). At March 31, 1981, the quoted market value of these holdings was $24,237,000. Because of the large shareholding such value is not necessarily indicative of the amount which might be realized if the shares were to be sold.

In January 1981 the company acquired additional shares of Camflo at a cost of approximately $784,000.

Information with respect to the consolidated financial position and operations of Camflo is as follows:

CAMFLO MINES LIMITED
Condensed Consolidated Balance Sheet
As at December 31

	1980	1979
	(thousands)	
Assets		
Current	$ 11,971	$11,110
Investments	33,569	16,245
Fixed	38,795	18,254
Petroleum and natural gas interests	34,297	18,973
Other assets and deferred expenditures	16,139	4,350
	$134,771	$68,932
Liabilities		
Current	$ 23,357	$14,925
Long-term	56,863	23,566
Deferred income taxes	12,107	4,782
Minority interest	2,184	113
	94,511	43,386
Shareholders' equity	40,260	25,546
	$134,771	$68,932

Condensed Consolidated Summary of Operations
Year ended December 31

	1980	1979
	(thousands)	
Revenue	$ 61,462	$42,899
Expenses	50,232	33,407
Net income	$ 11,230	$ 9,492
Earnings per share	$ 3.10	$ 2.82

5. Real Estate Investment

	1980	1979
	(thousands)	
Land held for resale (a)		
Land, at cost	$ 2,351	$ 2,412
Carrying and development costs, including $70,000 capitalized in 1980 ($74,000 in 1979)	1,686	1,616
	4,037	4,028
Cost of land sold in excess of proceeds received to date, including costs of $22,000 capitalized in 1980 ($6,000 in 1979) (b)	540	518
	$ 4,577	$ 4,546

(a) The land held for resale is presently zoned for high quality industrial development and a fixed and floating charge debenture secured by the property is lodged as collateral for bank loans (note 10).

(b) In August 1976, the company sold a portion of the land held for resale for $1,927,000 cash, plus the right to additional consideration which the purchaser may receive from the sale of a similar sized property sold by the purchaser to the Government of Ontario. The cash received as above is less than the cost of the land to the company. The purchaser and the company have made application to the Land Compensation Board of Ontario for additional cash consideration under the provisions of The Expropriations Act, Ontario and the hearing of this application has commenced but has not been completed at April 30, 1981. As the total consideration for this sale has not yet been determined, the transaction has not been completed and the excess of the cost of the land over the proceeds received to date is included in the balance sheet until the final consideration is determined. The company believes that it is unlikely that it will incur a loss on the final settlement of this transaction.

6. Petroleum and Natural Gas Interests

	1980	1979
	(thousands)	
Petroleum and natural gas properties together with exploration and development thereon and related production equipment	$ 3,707	$ 1,130
Accumulated depreciation, depletion and amortization	499	348
	$ 3,208	$ 782

The Canadian petroleum and natural gas properties with a net book value of $288,000 are pledged as collateral for a term bank loan (note 11).

A subsidiary, Chesbar Resources Inc., has entered into a joint venture agreement with a related company, Grandad Resources Inc., and another company to participate in the development of certain oil and gas properties in the United States. Under the related agreements, which provide for the development of thirty wells with the right to participate in up to fifty additional wells, Chesbar will pay Grandad Resources 7½% of the net revenue from the properties. The joint venture has agreed to the development of a total of thirty wells and to December 31, 1980 Chesbar had paid $1,814,000 as its share of the cost of drilling twenty-two wells and had advanced $667,000 as its share of the cost of drilling the remaining eight wells. This advance is included in petroleum and natural gas interests in the consolidated balance sheet.

7. Property, Plant and Equipment

	Cost	Accumulated depreciation depletion and amortization	Net
		(thousands)	
		December 31, 1980	
Pinson mining property (note 9)			
Construction in process	$ 4,474	$ 280	$ 4,194
Geothermal operations			
Research and other equipment	498	289	209
Equipment under capital lease	182	53	129
	680	342	338
Other			
Niagara Falls, Ontario property	1,453	1,015	438
Other	220	159	61
	1,673	1,174	499
	$ 6,827	$ 1,796	$ 5,031
		December 31, 1979	
Geothermal operations			
Research and other equipment	$ 334	$ 231	$ 103
Equipment under capital lease	182	7	175
	516	238	278
Other			
Niagara Falls, Ontario property	1,453	954	499
Other	165	143	22
	1,618	1,097	521
	$ 2,134	$ 1,335	$ 799

The equipment under construction at the Pinson mining property is pledged as collateral for bank loans (note 11).

The company has leased the property at Niagara Falls, Ontario for the period to December 31, 1983 and has granted to the lessee an option to acquire the property on that date. The annual rentals over the remaining term of the lease amount to $60,000 per annum.

8. Deferred Geothermal Exploration and Development Costs

	1980	1979
	(thousands)	
Geological and geophysical costs	$ 2,061	$ 1,637
Leasehold costs	1,933	2,098
Tangible and intangible drilling costs	10,767	8,455
Exploration costs	456	
Casing pipe	833	
Interest costs	847	581
Administrative costs, net	3,275	2,518
	20,172	15,289
Excess of cost of acquiring the shares of G.K.I. over book value at dates of acquisition, allocated to the geothermal project	2,520	3,130
	$22,692	$18,419

The recovery of deferred costs, including the allocated excess cost of acquiring the shares of G.K.I., depends on the company's ability to develop sufficient revenues from production. The company's ability to do so was enhanced in recent years when G.K.I. entered into agreements with the California Department of Water Resources (DWR) to provide geothermal energy from one of its wholly-owned properties to a 55 megawatt electrical generating station to be built by D.W.R. and the exchange of a portion of the interest in the Francisco prospect for common stock of MCO Resources Inc. (note 2).

In 1977 G.K.I. entered into an agreement with DWR to provide steam from the Rorabaugh prospect (100% owned by G.K.I.). The provisions of the contract require production and delivery by 1985 of sufficient steam to operate a 55 megawatt electrical generating station. Management anticipates that the cost of drilling additional wells, together with installation costs of lines to gather and deliver steam to the generating stations and other developments, will be approximately U.S. $57,000,000. As of December 31, 1980, three wells had been completed at a cost of U.S. $4,160,000. Management is negotiating financing for the geothermal development of this prospect.

G.K.I. entered into a letter of intent during 1978 with the DWR and a joint venturer whereby G.K.I. and the venturer would transfer to DWR a 7% carried interest in the Francisco property and commit to drill a well on the Binkley prospect in exchange for G.K.I. and the venturer together receiving a 75% interest in the Binkley prospect and approximately U.S. $1,200,000 which management estimated would substantially cover the cost of the well. The 7% interest in the Francisco property was assigned to DWR during 1978; however, the transaction was not formally completed and DWR has returned the assignment to G.K.I.. G.K.I. and the venturer are currently in negotiations regarding the Binkley prospect. The preceding events have no effect on total prospect costs.

During 1980, the Department of Energy granted the CU I Venture a $49,400,000 loan guarantee, secured by the venturers' interests in the prospect (note 11 (d)). The development loan may be used to fund up to 75% of the venture's costs as detailed in a project plan approved by the bank and the Department of Energy.

9. Deferred Mineral Exploration and Development Expenditures

	1980	1979
	(thousands)	
Pinson gold project, United States	$ 1,679	$ 925
Kasmere uranium project, Canada	986	767
Iberian silver projects, Spain	837	452
Potash project, Canada	201	
Other	102	41
	$ 3,805	$ 2,185

The company's ability to recover exploration and development expenditures deferred on the various projects depends on its ability to develop sufficient reserves for production.

Pinson gold project

In 1979 it was determined that it was commercially feasible to mine gold from the Pinson property in which the company has a 26.25% interest. In March 1980, the company and the other participants in the project formed a partnership to develop the property. All expenditures associated with constructing

the mill facility are being capitalized. The company estimates its share of the merchantable ore in the Pinson mining property is sufficient to recover all exploration, development and capital costs related to the property. However, the limitations involved in estimating the size of these reserves and the uncertainty of the recovery process prohibit precise measurement of merchantable quantities. The company is contingently liable for obligations of the partners in the project, however, the assets of the partnership are available for the purpose of satisfying such obligations.

Kasmere uranium project

A five year exploration program on the Kasmere properties in Manitoba was commenced in 1976 to explore for uranium. Mining claims and permits, which in 1977 amounted to approximately 600,000 acres, were reduced in the 1980 exploration program to approximately 75,000 acres in three areas. No commercially exploitable quantities of uranium were discovered and only one area of interest remains for further exploration in 1981. The 1981 proposed program has been significantly reduced from previous years, and would involve only a three or four week program in this remaining area at a cost of approximately $30,000 to the company.

As a result of the failure to find commercially exploitable quantities of uranium during the course of the five year program, and particularly the disappointing results of the 1980 program, the company is reassessing its continued involvement with the Kasmere project.

The company is the manager of this project for itself, Camflo Mines Limited and another company. Camflo and the company participate equally in the project.

Iberian silver projects

The company has a 21.25% net interest in a program in Spain and general exploration and drilling has indicated potential silver, lead and zinc ore on one property. Camflo also participates in this project. Further drilling is now under consideration. A program of underground work on another property has been completed with a view to determining the possible ore potential of a number of associated veins.

Potash project

Camflo holds an interest in a property in western Newfoundland equally for itself and the company. A related company, Pronto Explorations Limited, is a member of the group which controls the mining rights. Potash mineralization has been encountered by drilling on the property. In January 1981, Noranda Exploration Company, Limited entered into an agreement with the group and Camflo to participate in the continued exploration, development and operation of the property under which Noranda Exploration Company, Limited will earn an undivided working interest in the property.

10. Bank Loans

The operating bank loans are payable on demand and are secured by assignment of certain accounts receivable, by deposit with the banks of certain of the marketable securities (note 2), the shares of Camflo Mines Limited (note 4), and certain of the shares of a subsidiary company, Chesbar Resources Inc., and by a fixed and floating charge debenture on the land held for resale (note 5).

11. Long-Term Liabilities

	1980	1979
	(thousands)	
8% promissory note, repayable in instalments to 1981 (a)	$ 70	$ 350
Bank term loans, due 1981 to 1983 (b)	620	1,205
Bank term loans, due 1981 to 1986 (U.S. $3,872,000) (c)	4,543	
Note payable to bank (1980, U.S. $2,898,000; 1979, U.S. $909,000) (d)	3,388	1,018
Notes payable to co-venturer, including accrued interest (U.S. $1,173,000)		1,309
Obligation under capital leases	152	179
Liability under deferred compensation plan (note 12)	434	215
	9,207	4,276
Less current portion	920	1,684
	$ 8,287	$ 2,592

(a) The 8% promissory note is secured by the special term deposit of $70,000 (1979, $350,000) with the company's bankers. This special term deposit is included in other assets in the balance sheet.

(b) A bank term loan of $620,000 at December 31, 1980 ($860,000 at December 31, 1979) bearing interest at the bank prime rate (18% at December 31, 1980) plus ¾% is secured by certain of the petroleum and natural gas interests and related revenues (note 6), assignment of the accounts receivable referred to in note 10, and by deposit with the bank of certain of the marketable securities (note 2) and the shares of Camflo Mines Limited (note 4).

(c) In April 1980, a partnership formed to develop the Pinson mining property and the parent companies of the corporate partners entered into a credit agreement with a Canadian chartered bank providing up to $18,450,000 as interim project loans and term project loans. The unused line of credit under this agreement, amounting to approximately $1,194,000 at December 31, 1980, may be drawn until the earlier of completion of the mill construction or March 31, 1981. The loans bear interest at 110% of the bank's prime rate (21½% at December 31, 1980) until March 31, 1981 and thereafter at an annual rate of 115% of the bank's prime rate. Net interest expense of $261,000 in 1980 has been capitalized in the company's accounts. All property, plant and equipment of the partnership (note 7) and inventory owned and subsequently acquired during the term of the loans have been pledged as collateral.

(d) The note payable to the bank represents the company's share of financing for geothermal exploration carried on by G.K.I. as part of one of the joint ventures. Interest was charged at 125% of the bank's prime rate. The note was originally due August 31, 1979; however the bank agreed to extend the maturity date of the loan to allow sufficient time for the venture to develop the full geothermal field, subject to the United States Department of Energy's approval. The loan, secured by the venture's interest in the prospect, was guaranteed by the Department of Energy and was without recourse to the participants of the venture. The loan was repaid in 1980 from proceeds from the bank loan referred to below.

During 1980, the Department of Energy granted the CU I Venture a U.S. $49,400,000 loan guarantee, secured by the Venturers' interest in the prospect, to provide additional financing for geothermal development. The loan is with a bank, bears interest at ¾% above the bank's prime rate (21½% at December 31, 1980) and requires principal payments commencing the earlier of the date revenues from electrical generation are received from the prospect or five years after the first draw under the loan. Repayment will be in twenty-four monthly instalments based on a twenty-five year amortization schedule.

Interest on the notes payable to the bank and a co-venturer, relating to the geothermal projects, has been capitalized in deferred geothermal exploration and development costs in the consolidated balance sheet in the amount of $382,000 (1979, $360,000).

The approximate amounts of principal repayments in respect of the above liabilities, excluding the obligation under capital leases set out below and the note payable to the bank to finance geothermal exploration for which the repayment term cannot be estimated as discussed in (d) above, are: 1981, $878,000; 1982, $997,000; 1983, $897,000; 1984 and 1985, $757,000 each, of which $70,000 in 1981 will be paid from a special term deposit.

Based on the exchange rate prevailing at December 31, 1980, $7,504,000 would be required to discharge the long-term portion of the foreign currency debt outstanding at December 31, 1980. Such long-term debt (excluding current maturities) is included in the table above in the amount of $7,352,000 at December 31, 1980.

Minimum future rentals on capital leases are:

	1980	1979
	(thousands)	
1980		$ 51
1981	$ 51	51
1982	50	50
1983	36	36
1984	36	36
1985	30	30
Total minimum lease payments	203	254
Less: interest on leases	51	75
Present value of net minimum lease payments	$ 152	$ 179

12. Pension and Deferred Compensation Plans

The company has a non-contributory pension plan covering substantially all of its employees in Canada together with certain of the employees of an affiliated company, Camflo Mines Limited. The costs associated with the Camflo employees are recovered from Camflo. In 1979 the company established deferred compensation plans for certain officers to supplement the pension plan. The total expense to the company under these defined benefit plans, including amortization of past service costs and net of amounts recovered from Camflo, was $63,000 with respect to the pension plan (1979, $59,000) and $219,000 with respect to the deferred compensation plan (1979, $215,000).

The company makes funding payments to the pension plan equal to the amount of pension expense and recoveries from Camflo. The company accrues its annual cost under the deferred compensation plans and payments to employees are made by the company after the employee has retired.

At December 31, 1980 the company's share of the unfunded obligations in respect of past service under these plans was approximately $300,000, almost all of which had become vested in employees. It is anticipated that funding payments and accruals of $50,000 annually to 1985, and in reducing amounts annually thereafter to 1994, will amortize the company's share of the total obligation.

The actuarially computed value of vested benefits under the plans as at December 31, 1979, (the date of the most recent actuarial valuations of the plans) exceeded the total of the plan's pension funds and deferred compensation plan accruals by approximately $450,000.

Under the provisions of the deferred compensation plans and similar plans of Camflo, the payments required to be made by Camflo, which equal the payments required by the company, may in certain circumstances become a liability of the company.

13. Share Capital

Details of common shares issued during 1980 and 1979 are:

	Number of shares	Total consideration (thousands)
1980		
Issued under options granted to Camflo Mines Limited, for cash	300,000	$3,300
1979		
Issued on conversion of 8% secured convertible debentures	243,750	$1,950
Issued to Camflo Mines Limited, for cash	700,000	6,300
Issued under employees' stock option plan, for cash, at $6.25 per share	58,000	363
	1,001,750	$8,613

At December 31, 1980, 26,000 common shares were reserved for issuance through the exercise of options which may be granted under the terms and conditions of the company's incentive stock option plan. No options were outstanding under this plan at December 31, 1980. In January 1981 this plan was cancelled.

During 1980 the directors of G.K.I. authorized the granting of options on 105,000 shares of G.K.I. to three of its officers at an exercise price of U.S. $3.50 per share; however these options have not been formally granted.

In January 1981 the company set aside 300,000 authorized and unissued common shares which may be granted to officers and key employees under a new stock option plan. In April, 1981 the directors of the company granted options on 13,125 shares of the company to the three officers of G.K.I. referred to above, at the exercise price of $18.45 per share, conditional upon the acceptance by such persons of the Exchange Offer referred to in note 19 and the surrender by such persons of the options to acquire shares of G.K.I. referred to above. As additional consideration for surrendering the G.K.I. options G.K.I. has agreed to pay U.S. $157,500 annually on January 1, 1982, 1983 and 1985 to the three officers of G.K.I. in the aggregate.

14. Contributed Surplus

Contributed surplus represents the gain realized in 1980 by the subsidiary, Chesbar Resources Inc., when it sold to Camflo Mines Limited some of the shares of United Siscoe Mines Inc. which it owned.

15. Income Taxes

At December 31, 1980, the company and its subsidiaries had non-capital tax loss carry forwards available to reduce taxable incomes of future years. These losses are restricted to fiscal years not later than:

	Canadian Companies	United States Companies
	(thousands)	
1981	$ 33	
1982	292	
1983	415	$ 1,373
1984	1,030	58
1985	1,004	1,009
1986		7,137
1987		1,067
	$ 2,774	$ 10,644

In addition the Canadian companies have accumulated net capital losses of approximately $417,000 which may be carried forward indefinitely for application against future taxable capital gains.

To December 31, 1980, the net of certain expenses deducted for income tax purposes by the company and its subsidiaries exceeded the amounts recorded as expenses in the consolidated statements of income by approximately $3,000,000.

The benefit relating to these tax loss carry forwards and timing differences will be recognized for accounting purposes as realized in future years by recording deferred taxes.

The income tax recovery in 1980 and 1979 represents a Canadian provincial credit with respect to Crown royalties paid to that province, net of a provision for deferred income taxes of $33,000 in 1980 (nil in 1979) in respect of the earnings of a subsidiary company.

Deferred income taxes of $5,072,000 relate to the extraordinary gain on disposal in 1980 of an interest in a geothermal prospect. In accordance with generally accepted accounting principles, $2,777,000 of these deferred income taxes have been classified in current liabilities; however, the company does not anticipate that, during the period in which United States tax loss carry forwards are available (as discussed above), the disposition at book value of any of the shares of MCO Resources Inc. received as consideration in the transaction will require payment of these deferred income taxes.

16. Business Segments

The Company's operations consist of three business segments: petroleum and natural gas production, mineral exploration and geothermal exploration and development. Presented below are segmented data relative to these activities.

	Year ended December 31			
	1980		1979	
	(thousands)			
	Operating revenue	Operating profits (losses)	Operating revenue	Operating profits (losses)
Petroleum and natural gas	$ 774	$ 568	$ 337	$ 276
Mineral		(32)		(73)
Geothermal				
	$ 774	536	$ 337	203
Unallocable expenses				
Administration		(1,339)		(1,175)
Interest		(1,665)		(957)
Corporate depreciation		(76)		(60)
Other income, net		209		325
Loss before income taxes		$(2,335)		$(1,664)
Operating profits (losses) by geographic area				
— Canada	$ 663	$ 573	$ 337	$ 226
— United States	111	(37)		(23)
	$ 774	$ 536	$ 337	$ 203

The company's petroleum and natural gas revenues are derived in Alberta substantially from contracts with TransCanada PipeLines Limited.

	December 31, 1980	December 31, 1979
	(thousands)	
Identifiable assets by geographic area		
Canada	$ 1,532	$ 983
United States	31,867	20,229
Spain	837	453
	$ 34,236	$ 21,665
Industry segments		
Identifiable assets		
Petroleum and natural gas	$ 3,208	$ 782
Mineral	7,998	2,185
Geothermal	23,030	18,698
	34,236	21,665
Corporate assets	24,386	8,163
Investment in affiliated company	1,304	3,014
Total assets	$ 59,926	$ 32,842
Capital expenditures		
Petroleum and natural gas	$ 2,577	$ 204
Mineral	5,846	1,101
Geothermal	6,488	6,558
Corporate	54	24
	$ 14,965	$ 7,887
Depreciation, depletion and amortization expense		
Petroleum and natural gas	$ 151	$ 32
Mineral		
Geothermal		
Corporate	76	60
	$ 227	$ 92

17. Related Parties

In addition to the amounts discussed in note 3, the company has made loans to certain shareholders, directors, officers and employees and related companies to assist in the acquisition of residences, company stock and for other purposes. These loans were repaid in the years they were made, bear interest at rates which are generally greater than bank prime rates and in the aggregate did not exceed $1,240,000 in 1980 (1979, $470,000).

Fees for geological, engineering, legal and advisory services totalling approximately $471,000 in 1980 (1979, $320,000) have been paid to consultants and other professionals who are also directors of the company, a subsidiary or a related company.

The company shares office premises with certain related companies and certain administrative expenses are allocated amongst the companies.

18. Contingencies

(a) During 1980, the directors of G.K.I. authorized that all funds advanced to G.K.I. by United Siscoe Mines, Inc., plus accrued interest thereon, are convertible to common stock at $5.00 per share, at the option of United Siscoe Mines Inc.. At December 31, 1980, the amount of such advances, including accrued interest, was approximately $4,514,000.

(b) During 1980, the company became aware that the stockholders of G.K.I. have the right, under Nevada law, to subscribe for their proportionate share of issuances of stock for cash by G.K.I..

Since its inception, G.K.I. has issued several lots of shares to the company for cash or for consideration that might be construed as equivalent to cash, without granting the right to its other shareholders to subscribe for their proportionate share of such issuances. Such failure may

constitute violation of the preemptive rights of these G.K.I. shareholders which, if successfully litigated, could result in damages being assessed against G.K.I. and/or equitable remedies being granted to the shareholders. Certain of these potential equitable remedies, such as rescission of the issuances or retroactive performance under these preemptive rights, could significantly affect the company's shareholdings in G.K.I..

G.K.I. has been advised by special counsel, after an investigation of the facts surrounding various issuances of common stock of G.K.I. since its inception, that the potential liability of G.K.I. due to violations of preemptive rights is not very significant. In addition because the issuances of G.K.I. common stock were made in good faith for legitimate business reasons, it is probable that any G.K.I. shareholder found to have been denied his preemptive rights would be entitled only to monetary damages.

19. Subsequent Event

On April 24, 1981, the Board of Directors approved in principle a two step transaction to acquire the 16.4% interest of Geothermal Kinetics Inc. not currently held. The first step of the transaction involves an Exchange Offer to certain G.K.I. shareholders holding approximately 975,000 shares (15%) pursuant to which these shareholders can exchange their G.K.I. shares for shares of the common stock of the company at the rate of one share of the company for each two G.K.I. shares held. The second step involves a reorganization pursuant to which the remaining G.K.I. shareholders (including those who do not accept the Exchange Offer), other than the company, will be offered U.S. $9.15 in cash for each G.K.I. share held.

Under the terms of these arrangements, the company will not proceed with the reorganization unless at least 650,000 shares of G.K.I. are tendered under the Exchange Offer and, if all other conditions are satisfied, must proceed if geater than 875,000 shares are tendered. The terms of the reorganization require the approval of a majority of the shares voted on the matter by those G.K.I. shareholders who would receive cash.

In the event that the reorganization is effected, G.K.I. will be responsible for the payment of the amounts owed to minority shareholders, which will range from U.S. $858,000 to U.S. $3,840,000 depending upon the number of shares tendered in the Exchange Offer. G.K.I. has arranged lines of credit totalling U.S. $5,000,000 to be used to satisfy this obligation to the minority shareholders and to provide working capital. Any funds drawn under this line will bear interest at 1% over U.S. prime. Management of G.K.I. intends to repay any borrowing under this line of credit from the sale of a portion of the shares of MCO Resources Inc. held by G.K.I..

Management Report

The annual report and financial statements have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the annual report including the financial statements.

R. E. Fasken, President

C. B. Burton, Vice-President Finance

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